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DEPARTMENT FOR H AND RM/F/DFS/FO/AA/CAA
SAO PAULO PLEASE PASS TO CODEL SANCHEZ

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SUBJECT: ARGENTINA: SCENESETTER FOR CODEL SANCHEZ

¶1. (SBU) INTRODUCTION: On behalf of Embassy Buenos Aires, I warmly welcome your visit to Argentina November 20-21. Your visit occurs during a period of heightened political interest following the October 28 election victory of Cristina Fernandez de Kirchner and her November 14 announcement of her Cabinet makeup. Many of her Cabinet members are holdovers from her husband's administration, indicating a policy of continuity over change. She will be sworn in on December 10, and the Ministers currently in charge of Defense and homeland security (Interior) will stay on. The advent of a new Argentine administration provides the U.S. an opportunity to build on an already strong and positive bilateral relationship. During your meetings, you will have the opportunity to discuss a range of bilateral and regional issues and reinforce our positive agenda in the region. End Introduction.

Background

¶2. (SBU) Argentina was once one of the richest countries of the hemisphere, achieving a GNP per capita that was among the highest in the world in the early 20th century. However, the history of Argentina over the last 70 years has been one of economic decline and political instability. Many Argentines are at a loss to explain how their country, blessed with rich natural resources, a fertile land and manageable population numbers, could have fallen so far. Some blame the military dictatorships, which predominated between 1930-1983; others blame Peron and "Peronism;" and a significant number blame external factors: the IMF, the U.S., and, to a lesser extent, Europe, especially following the 2001-2002 economic crisis, the worst in Argentine history. The election of left-of-center Peronist Nestor Kirchner in 2003 marked a significant shift in Argentine foreign policy, aligning the country more closely with its MERCOSUR partners and less closely to the U.S. That said, Kirchner has cooperated closely with the U.S. on a number of issues, including counter-terrorism and narcotics, and regional problems like Haiti.

Political Landscape

¶3. (SBU) Kirchner is completing his four year term as the most popular Argentine President since the return to democracy in 1983, having overseen the country's Phoenix-like recovery from its 2001-2002 economic crisis, an event equivalent to our Great Depression. With this steady popular support at 60-70 percent, Kirchner obtained a majority in both houses of Congress and enjoys the support of more than two-thirds of the provincial governors. Rather than

President Kirchner seeking a second term, his wife, Senator Cristina Fernandez de Kirchner ran as the official candidate, winning handily with 45 percent of the vote over a divided and largely ineffective opposition. Her inauguration takes place on December 10, and it is widely anticipated that she will continue current government policies, making changes only gradually. Major policy challenge for the new President will be to contain inflation, attract and boost investment -- particularly in Argentina's energy sector -- and to restore a sense of law and order to an electorate increasingly concerned about crime and security.

Bilateral Relations and Strategic Goals

14. (SBU) Argentina maintains positive political relations with the U.S., but one of the major tasks facing the Embassy is forging relationships of trust with a government that, to date, has been largely inward focused and intent on maintaining an image as independent from the U.S. As part of his efforts to find international financing, Nestor Kirchner has also developed a close relationship with Hugo Chavez. The largest overall challenge we face in Argentina is the high level of anti-Americanism in the Argentine public. Argentina consistently registers the highest levels of anti-Americanism in the hemisphere in public opinion polls. Working to change these perceptions is the Embassy's highest priority.

15. (SBU) Argentina is, nevertheless, a Major Non-Nato Ally and cooperates in regional security, counterterrorism, drug interdiction, and in contributing troops to U.N. peacekeeping missions. The GOA has been a strong international voice on arms control and nonproliferation issues. On Iran, the GOA voted to refer Iran's noncompliance to the UNSC at the September 24, 2006 IAEA Board of Governors meeting. The GOA has also endorsed the Proliferation Security Initiative (PSI).

16. (SBU) Terrorism: Argentina was itself a victim of international terrorist attacks in the 1990s and has been a cooperative partner in countering terrorism, especially in the Tri-border Area. On November 7, Interpol's General Assembly voted to issue international capture notices for five current and former Iranian officials and one Lebanese Hizballah member wanted in connection with the 1994 terrorist bombing of the Buenos Aires Jewish Community Center (AMIA). The Embassy and USG agencies worked with the GOA to pass comprehensive antiterrorism, money laundering, and terrorism finance legislation to strengthen local enforcement efforts. We assist the GOA in capacity building in the Financial Intelligence Unit, within the restraints created by Brooke Amendment penalties, and work closely with the Argentine military on modernization, increasing interoperability, and training and education focused on civilian control, respect for human rights, defense resource management, strategic planning, and science and technology.

17. (SBU) International Crime and Drugs: Argentina is a trans-shipment point for narcotics emanating largely from Colombia, Peru and Bolivia. Argentine law enforcement agencies cooperate closely with their USG counterparts on drug interdiction efforts, fugitive arrests and information sharing, which has resulted in increased enforcement. This Mission is focused on institutional capacity building and expanding training opportunities for law enforcement officials, prosecutors and judges in order to improve internal security and decrease international drug and criminal activity in Argentina.

18. (SBU) Democracy and Rule of Law: This Mission works with the GOA, media and civil society to strengthen democratic institutions, fight corruption and reinforce civilian control of the military. We promote key reform efforts such as ending the election of representatives by party slate lists, increasing governmental transparency, and limiting public corruption and strengthening the political independence of the judicial branch. While it does not side with us on every issue, we continue to cultivate the GOA as a cooperative

partner in multilateral fora, and seek Argentina's cooperation in the defense of democracy and the observance of human rights in countries like Cuba, Venezuela and Bolivia.

¶9. (SBU) Human Rights: The Government of Argentina generally respects the human rights and fundamental freedoms of its citizens. The Kirchner government's human rights policy focuses on seeking justice for the human rights violations committed during the 1976-83 military dictatorship, which resulted in the disappearance of 11,000-30,000 political dissidents. It does not, however, focus on bringing to justice armed guerrilla groups who also committed human rights abuses during the same period, known as "the Dirty War", albeit on a much smaller scale. To date, the courts have convicted three former officials of the military regime, including a military chaplain.

¶10. (SBU) Human Trafficking: Argentina is on G/TIP's Tier-2 Watchlist for lack of progress in providing greater assistance to victims and curbing official complicity in trafficking at the provincial level. Argentina is a source, transit, and destination country for men, women, and children trafficked for the purposes of commercial sexual exploitation and forced labor. According to the International Organization for Migration, 80 percent of trafficking victims in Argentina are Argentine, most of whom are trafficked for the purpose of sexual exploitation. Bolivians and Peruvians are trafficked into the country for forced labor in sweatshops and agriculture. Argentine efforts to combat trafficking have focused on prevention and training of security and government officials. Draft anti-trafficking legislation is currently being considered by the Argentine Congress, with the debate focused on the issue of victim's consent. The Senate version of the bill makes trafficking in minors a federal crime, but considers a victim's consent relevant in the case of adult trafficking victims. The Embassy has worked with NGOs, lawmakers, and government officials in an effort to push for comprehensive anti-trafficking legislation.

Economic and Commercial Situation

¶11. (SBU) Argentina's economy has sustained a robust recovery following the severe 2001/2002 economic crisis, with 4 consecutive years of over 8% growth in real gross domestic product (GDP). Argentine GDP reached U.S. \$213 billion in 2006, approximately U.S. \$5,460 per capita, with real investment up 18.7%. Economic expansion is creating jobs, with unemployment down from a post-crisis high over 20% to 8.5% in the second quarter of 2007. Poverty levels have also fallen from a post-crisis high of over 50% to the still-worrisome 25% range.

¶12. (SBU) Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector, and a diversified industrial base. Its post-crisis move to a flexible exchange rate regime and favorable international commodity and interest rate trends were catalytic factors in supporting renewed growth, allowing the government to accumulate a reserve cushion (over \$43 billion as of November 2007) to help insulate the economy from external shocks. A higher tax burden and the recovery's strong impact on revenues allowed the government to achieve a primary fiscal surplus in 2006 equivalent to 3.5% of GDP. However, the primary surplus for 2007 is estimated to fall to about 2-2.5% of GDP due to the strong increase in primary expenditure during this year's pre-election period. Argentina should continue to perform well in 2007 with GDP growth projected in the 8% range. Challenges to sustaining high levels of economic growth in the future include capacity constraints; the need for substantial new investment in primary infrastructure; potential energy shortages in the face of high growth and energy prices below international market levels; and inflation (9.8% in 2006) and the government's heterodox policies to contain it, including price controls, export taxes, pressure on the private sector to limit price increases and the alleged manipulation of economic statistics. The consumer price index (CPI) is

independently estimated to be increasing in the 14-18% range in 2007, about twice the level measured by the government's official CPI.

¶13. (SBU) Argentina's exchange rate policy is based on a managed float that appears to be targeting a nominal exchange rate in the 3.15-3.20 Argentine pesos (ARP) per U.S. dollar range. Market analysts consider the peso's real exchange rate broadly undervalued. This, along with historically high global commodity prices, has helped lift export volumes and value to record levels, resulting in a \$12 billion trade surplus in 2006, but estimated to fall to \$9.5 billion in 2007 due to the strong increase in imports. Foreign trade equaled approximately 38% of GDP in 2006 (up from only 11% in 1990) and plays an increasingly important role in Argentina's economic development. Exports totaled approximately 22% of GDP in 2006 (up from 14% in 2002), and key export markets included MERCOSUR (21% of exports), the EU (18%), and NAFTA countries (13%). Total two-way trade with the U.S. in 2006 totaled almost \$9 billion. The production of grains, cattle, and other agricultural goods continues to be the backbone of Argentina's export economy. Energy products, high technology goods, and services are emerging as significant export sectors.

Trade and Commercial Debt Issues

¶14. (SBU) Over 450 U.S. companies are currently operating in Argentina and employ over 150,000 Argentine workers. U.S. investment in Argentina is concentrated in the manufacturing, information, and financial sectors. Other major sources of investment include Spain, Chile, Italy, France, Canada, and Japan. Continuing Argentine arrears to international creditors (including over \$20 billion in default claims by international bondholders, including U.S. citizens, and over \$6 billion owed to official creditors, including the U.S. Government) and a large number of arbitration claims filed by foreign companies, including U.S. companies, are legacies of the 2001/2002 economic crisis that remain to be resolved and adversely impact Argentina's investment climate. We hope to work with the new government to resolve these problems. Regarding ongoing WTO trade negotiations, Argentina has staked out a surprisingly strident position in order to protect its domestic manufacturing industries. We have been urging them to adopt a more constructive approach.

Agriculture

¶15. (U) The agricultural sector is a mainstay of the Argentine economy (e.g., over 50 percent of total Argentine exports are represented by agricultural, livestock, and food shipments), but it has been negatively affected by GOA policies to contain inflation. The two principal policy initiatives which the GOA has chosen to curb inflation have been through price and export controls. The chief agricultural and livestock products that have been affected by this policy are grains (wheat and corn), dairy, and meat. The GOA has watched, with great concern, as the international price of wheat has sharply increased. Argentina is the number 5 exporter of wheat in the world. To control domestic prices, the GOA suspended export registrations for much of this year and recently increased the export tax from 20 percent to 28 percent.

¶16. (U) Corn prices have also caught the attention of the GOA. The GOA has frozen export registrations for much of the year, hoping to ensure sufficient corn for domestic use (the corn is used, in the main, as a feed for livestock and poultry, and for food) without putting upward pressure on prices. The export tax was also recently increased to 25 percent.

¶17. (U) Since Argentina has the highest per capita beef consumption in the world (about 63 kilograms per capita), the GOA has been extremely concerned about the price of this commodity. In the face of rising domestic prices, the GOA increased the export tax on fresh beef from 5 to 15 percent

in late 2005, and the minimum slaughter weight to 240 kilograms. In 2006, it banned almost all fresh beef exports for 3 months. The government currently has an informal policy in place to limit beef exports to around 500,000 tons per year.

¶18. (U) The biofuels industry in Argentina, particularly biodiesel production, is rapidly growing due to the large availability of feedstock and a tremendous potential for exports. For 2007, biodiesel production is estimated at 200 million liters. Production in 2008 is forecast to surpass 800 million liters as many plants now being constructed will be operational. Currently, there are over 20 announced biodiesel projects in Argentina. Many of them are large capacity plants (over 200,000 tons/year output) situated around Rosario. To comply with the current mandated mixing ratios for biodiesel set for 2010, Argentina will only have to produce and use about 700 million liters of biodiesel (about 10 percent of current soybean oil output). As such, the output of those plants is focused on the export market.

¶19. (U) Currently, ethanol production capacity is almost 400 million liters per year due to a large ethanol distillery inaugurated in the province of Tucuman in 2006 with the objective of producing ethanol for fuel use, and a sugar mill in Salta Province that is expanding its capacity for non-fuel usage. There are currently very few plants being built for ethanol production using corn or sorghum feedstock. Most analysts believe, however, that ethanol production in Argentina will grow significantly, but with a primary focus on the export market. Potential collaboration between the U.S. and Argentina on biofuels development is strong due to keen interest by both parties and potential synergies given that the U.S. and Argentina have opposite growing seasons.

¶20. (U) To help build a large fiscal surplus for Christina Kirchner,s first year in office, the GOA on November 7 increased export taxes on many agricultural commodities. Soybean export taxes were raised from 27.5 percent to 35 percent; soybean oil and derivatives from 24 percent to 32 percent; corn from 20 percent to 25 percent; and wheat from 20 percent to 25 percent.

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